

Message Text

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C O N F I D E N T I A L CAIRO 8946

DEPT PASS ACTION FEDERAL RESERVE BOARD

FOR CHAIRMAN BURNS FROM AMBASSADOR EILTS

E.O. 11652: GDS

TAGS: EINV EG

SUBJECT: FEDERAL RESERVE BOARD APPROVAL FOR

AMERICAN BANKS TO OPERATE IN EGYPT

1. I AM SENDING THIS MESSAGE DIRECTLY TO YOU AT THE SUGGESTION OF FORMER TREASURY SECRETARY GEORGE SHULTZ. IT IS AN APPEAL FOR EARLY FRB APPROVAL OF THE APPLICATION OF SEVERAL AMERICAN BANKS TO DO BUSINESS IN EGYPT.

2. AS YOU MAY KNOW, THIS PAST YEAR HAS SEEN A DRAMATIC CHANGE IN US-EGYPTIAN RELATIONS. THIS HAS BEEN THE RESULT OF SECRETARY KISSINGER'S INDEFATIGABLE EFFORTS AND PRESIDENT SADAT'S COURAGE AND LEADERSHIP. ONE OF THE DRAMATIC ASPECTS OF THIS CHANGE OF POLICY HAS BEEN THE DECISION OF THE GOE TO LIBERALIZE THE EGYPTIAN ECONOMY, TO OPEN IT UP TO FOREIGN PRIVATE INVESTMENT AND TO DEVOTE MORE RESOURCES TO BADLY NEEDED ECONOMIC DEVELOPMENT. AFTER THESE MANY YEARS OF TOTAL PREOCCUPATION WITH CONFRONTATION ISSUES, THIS DEVELOPMENT DESERVES OUR ENCOURAGEMENT AS A FACTOR FOR PEACE, PROGRESS AND STABILITY IN THIS SENSITIVE PART OF THE WORLD. SINCE ANY USG AID IS LIKELY TO BE MODEST AT BEST, WE HAVE AS A MATTER OF POLICY PLACED HEAVY EMPHASIS ON ACTIVELY

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ENCOURAGING PRIVATE AMERICAN INVESTMENT AND BUSINESS

ACTIVITIES. A SPECIAL JOINT COMMISSION HAS BEEN ESTABLISHED TO FACILITATE THE PROCESS AND AMERICAN BANKS ARE AN IMPORTANT CATALYST IN IT.

3. AT LEAST FIVE AMERICAN BANKS HAVE APPLIED FOR PERMISSION TO OPERATE IN VARIOUS FORMS IN EGYPT. DURING TREASURY SECRETARY SIMON'S VISIT TO EGYPT IN JULY OF THIS YEAR, AT THE BEHEST OF FORMER PRESIDENT NIXON, THE EGYPTIAN DEPUTY PRIME MINISTER (NOW PRIME MINISTER), DR. HEGAZY, ANNOUNCED THAT THE REQUISITE EGYPTIAN PERMISSION WOULD SHORTLY BE GIVEN TO ALLOW THESE BANKS TO ESTABLISH THEMSELVES HERE. SINCE THERE WAS SOME OPPOSITION FROM THE EGYPTIAN CENTRAL BANK AND FROM A NUMBER OF EGYPTIAN STATE BANKS, THE LICENSING PROCESS DRAGGED ON. I FINALLY HAD TO DISCUSS THE SUBJECT WITH PRESIDENT SADAT, POINTING OUT TO HIM THE IMPORTANCE OF HAVING AMERICAN BANKS IN THIS COUNTRY. THE PRESIDENT WAS NOT AWARE OF THE DELAY, REAFFIRMING TO ME HIS KEEN INTEREST IN HAVING AMERICAN BANKS HERE, AND ASSURED ME THAT THE PROMISED PERMISSION WOULD SHORTLY BE GIVEN. TEN DAYS OR SO LATER, IT WAS.

4. HOWEVER, OUR BANKS NOW FIND THEMSELVES IN THE AWKWARD POSITION OF FINALLY HAVING GOTTEN EGYPTIAN APPROVAL AS A RESULT OF MY INTERVENTION IN THEIR BEHALF, BUT NOT YET HAVING FRB APPROVAL. THE EGYPTIANS ARE POINTING TO THIS AS EVIDENCE OF A FAILURE ON THE PART OF THE USG TO FULFILL THE USG COMMITMENT TO ENCOURAGE AMERICAN PRIVATE BUSINESS VENTURES IN THIS COUNTRY. THE SUBJECT HAS REPEATEDLY ARISEN, MOST RECENTLY DURING THE VISITS OF MR. SHULTZ AND ASSISTANT TREASURY SECRETARY PARSKY. WE FRANKLY LOOK VERY BAD.

5. I UNDERSTAND THE HESITATION ON THE PART OF FRB RE FURTHER BANKING OPERATIONS ABROAD, BUT EARNESTLY HOPE THAT IN THE OVER-RIDING INTEREST OF FURTHERING US POLICY IN THIS CRITICALLY IMPORTANT COUNTRY, THE FRB WILL EXPEDITIOUSLY GIVE ITS APPROVAL. I MUCH APPRECIATE YOUR CONSIDERATION OF THIS MATTER.
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